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SUBJECT: RUSSIA: PENDING CHANGES CAST ROSATOM AS CORPORATION

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11. (U) SUMMARY. Over the past year and a half, Russia has been working to restructure its nuclear industry. In a June 8 meeting with EST, Natalya Klishina, head of the Bilateral Relations Division in Rosatom's Department of International Relations, clarified what these changes mean and what other changes are expected. Klishina said that the laws and decrees that have been passed thus far, such as the February 5, 2007 "Tunnel Law" and the recent Putin decree on April 27, are actually phases required to implement one law -- a law that both makes some fundamental changes to nuclear material handling and ownership within Russia and sets the agenda for follow-on changes that must be made to other laws. This cable reviews the typical phases of Russian lawmaking, discusses this process in terms of the changes being made within the nuclear industry, and gives the Rosatom perspective on these changes, including the intention to convert Rosatom from a government agency to a state-owned corporation. END SUMMARY.

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Lawmaking, Russian Style

12. (U) There are three phases to fully implementing a law within Russia.

-- The parliament is comprised of the Duma (lower house) and the Federation Council (upper house). The law must pass through three readings in the Duma, with most negotiation and changes occurring between the first and the second readings; the third reading is typically a formality. The Federation Council must then pass it. It is very rare that the Federation Council would refuse to do so. The president must then sign it, thereby making the passed bill an official law. The law's effective date is specified in the legislation.

-- Next, the Russian president must issue a decree stating that the new law will be implemented.

-- Finally, the executive branch, also known as the "Federal Government" or the "Government," issues a resolution outlining a detailed implementation plan. (NOTE: Not all laws need implementing instructions or decrees, but there are many laws that are general in nature -- such as the law on restructuring the nuclear industry -- that require further decrees by either the President or the government stipulating the details.)

13. (U) This process is already at work in the case of the current Russian effort to reorganize the nuclear industry. On January 19, 2007, the legislature -- the lower and upper houses together -- passed the bill "On the Restructuring of the Nuclear Industry," commonly referred to as the "Tunnel Law," outlining the future legal

changes that are necessary in order to achieve the overall restructuring, as well as creating the legal basis for the vertically-integrated holding company Atomniy Energopromyshlennyi Kompleks (AEK) -- popularly known as "Atomenergoprom" or even "Atomprom" -- that will act as an umbrella organization bringing together the various entities involved in the civilian nuclear sector. The bill was then passed to the president for his signature. On February 5, President Putin signed the bill that the legislature passed, thereby making it an official federal law. Putin issued the Presidential decree "On Restructuring the Nuclear and Energy Industry Complex of the Russian Federation" outlining presidential approval on April 23. On May 26, the Federal Government issued a resolution resolving to implement the Presidential decree.

14. (U) According to Klishina, the new law stipulates that changes to parts of at least twelve other laws are expected, although some of these changes may be relatively minor. She explained that sometimes when a new law is created, changes need to be made to existing laws, such as the law allowing the import of spent nuclear fuel; this required a parallel adjustment to the Nuclear Energy Law to allow importation to Russia of spent nuclear fuel. The existing laws to which changes are expected include: Education, Closed Cities, Civil Code of the Russian Federation, Nuclear Energy, Privatization, Licensing, Registration of Entities, Law on Land Development, Law on Privatization of State Ownership, Environmental Protection, Law on Electrical Energy, and Law on Shareholding Companies. (COMMENT: We expect that these would follow the same general pattern noted above of Legislative approval, Presidential decree, and Executive resolution. END COMMENT)

Restructuring: Past, Present, and Future

15. (U) Klishina said that she does not know who precisely is behind all the current changes but that the general idea of a restructuring has been around for years, going back as far as the days when Rosatom was the Ministry of Medium Machine Building (REFTEL). She said, however, that it is actually good that reorganization is only happening now, implying that she thought that such care would not have been taken if the idea had found traction previously.

16. (U) Klishina said that in the near future, it is expected that Rosatom as a federal agency will be "going away" and will be replaced by a 100 percent state-owned "non-profit" company called Rosatom Corporation. Rosatom Corporation would be the managing company on behalf of the state. (COMMENT: This is the first time that a Russian government official has discussed this with Embassy officials. END COMMENT)

17. (U) Klishina said that the reason behind the restructuring -- in particular creation of the Atomenergoprom holding company and the Rosatom Corporation -- is to allow for more flexibility to manage and conduct business activities, which is not possible when an entity is a government agency with a long chain of command. She explained further, however, that there would still be tight control by the state. Key decisions and commercial contracts will be subject to government approval and sometimes even approval by the President. In addition, the federal accounting of nuclear material and IAEA obligations would still be managed by the Rosatom Corporation. Finally, Klishina said that Rosatom Corporation will be held to the obligations of international agreements that have already been signed by Rosatom as a federal agency.

18. (SBU) As an aside, Klishina commented that it was her personal opinion that not only should the civilian not be separated from the nuclear weapons complex, but that it should be preserved as one entity and remain a federal entity.

19. (U) There have been -- and will continue to be -- a number of big structural adjustments within Rosatom due to the changes that have occurred already. The Atomic Energy department (which dealt with nuclear power plants) and the Fuel Cycle department have now been combined into one. Three other departments -- Radiation, Spent Nuclear Fuel, and Decommissioning -- have also been consolidated into one department.

¶10. (U) Klishina then outlined the expected chronology for completing the creation of Atomenergoprom. By July 4, Atomenergoprom must be created and operative. By autumn, the draft law on the Creation of Rosatom Corporation will be passed to the Duma for consideration and should be signed by the end of the year. The expectation is that by the beginning of next year, the company Rosatom Corporation will fully exist, and Rosatom as a governmental agency will cease. She said that all basic decisions will be made before the election.

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